

IRS Human Capital: Hiring and Attrition of Employees in Compliance Occupations

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Overview

- IRS and overall government workforce rapidly aging – especially true for IRS compliance workforce
- Hiring has varied - compliance labor force has declined via attrition
- Since 1997 Revenue Agents (audit tax returns) staffing has declined by 19% and Revenue Officers (collect delinquent taxes) staffing has declined by 25%
- Develop a micro model of attrition for employees in Revenue Agents (RAs) and Revenue Officers (ROs) job series
- Forecast attrition and staffing levels under different hiring scenarios

Data

- IRS payroll data for 1997-2003 (20th pay period)
- Annual changes in employee status (Job series, tenure, evaluation, etc.)
- Substantial IRS reorganization – Opportunities within the internal labor market

Special thanks to Jonathan Edelson in the Office of Program and Risk Analysis for his assistance in obtaining and analyzing the payroll data

Table 1 - RO and RA Staffing Levels and Attrition, 1997-2003

	Year	Employees	Quits	External Hires	Transfers out of the Job Series	Transfer into the Job Series	Percentage Change in Staffing
Revenue Agents	1997	15,028	714	19	196	86	-
	1998	14,223	483	35	196	129	-5.36%
	1999	13,708	498	24	190	145	-3.62%
	2000	13,189	526	460	597	223	-3.79%
	2001	12,730	480	532	232	162	-3.48%
	2002	12,712	556	67	102	104	-0.14%
	2003	12,222	-	-	-	-	-3.85%
Revenue Officers	1997	7,454	343	6	89	40	-
	1998	7,068	267	6	161	72	-5.18%
	1999	6,718	223	6	191	50	-4.95%
	2000	6,360	263	240	373	305	-5.33%
	2001	6,269	282	3	167	56	-1.43%
	2002	5,879	269	20	80	22	-6.22%
	2003	5,571	-	-	-	-	-5.24%

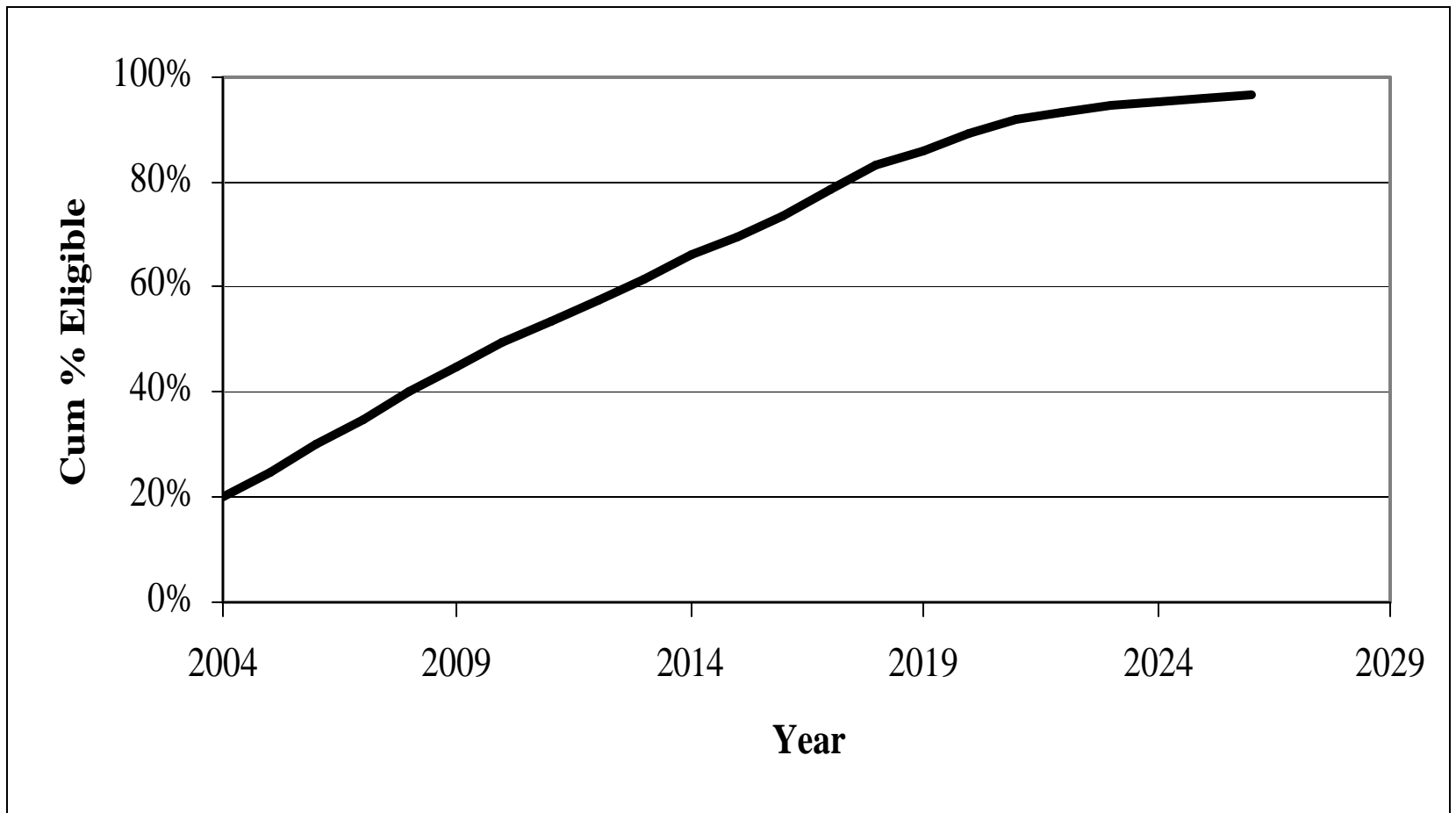


Figure 1 - Percent of the RAs and ROs Employed in 2003 that will be Eligible for Retirement

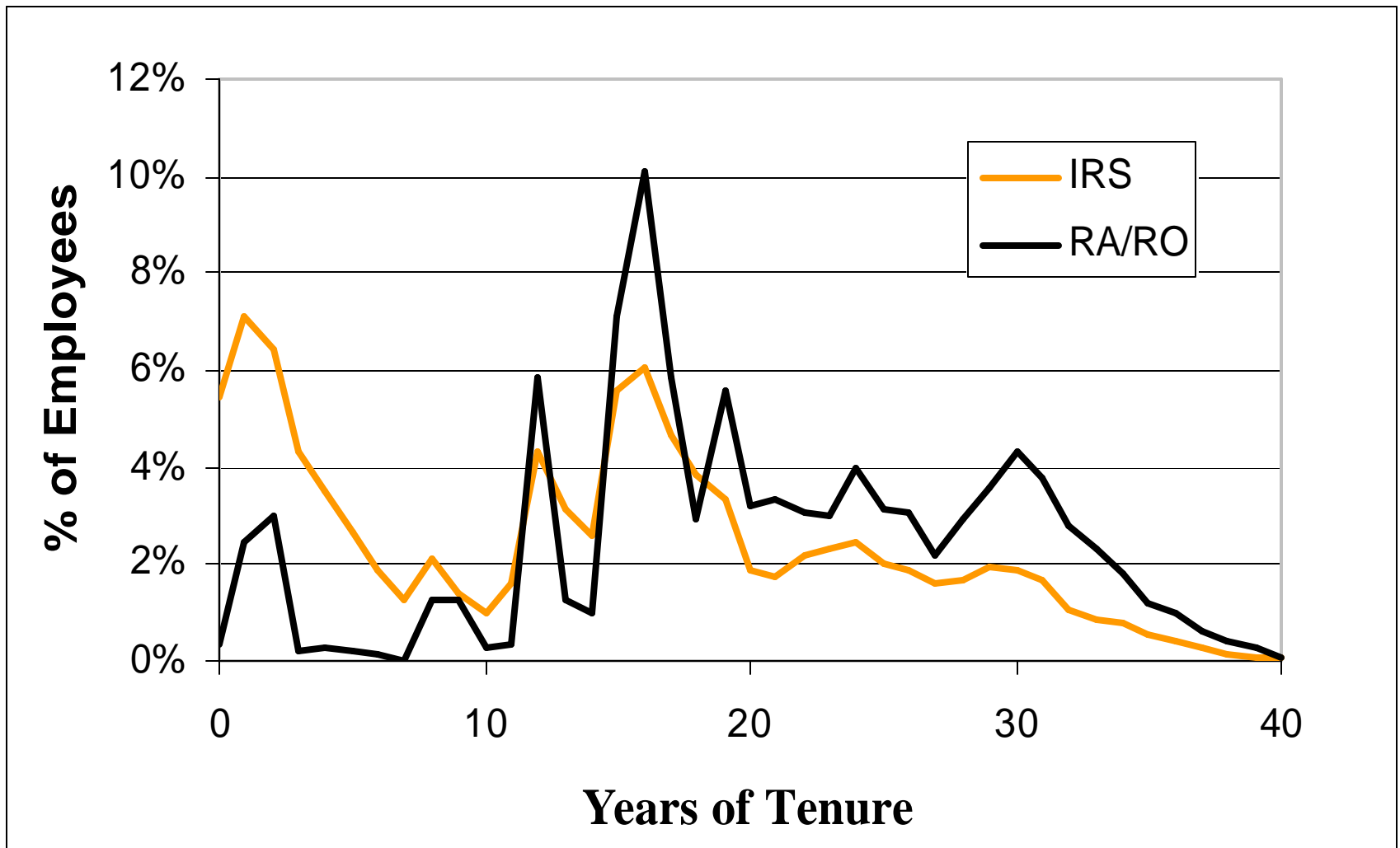


Figure 2 - Distribution Tenure RA/RO Employees and All IRS Employees, Calendar Year 2003 (Pay Period 20)

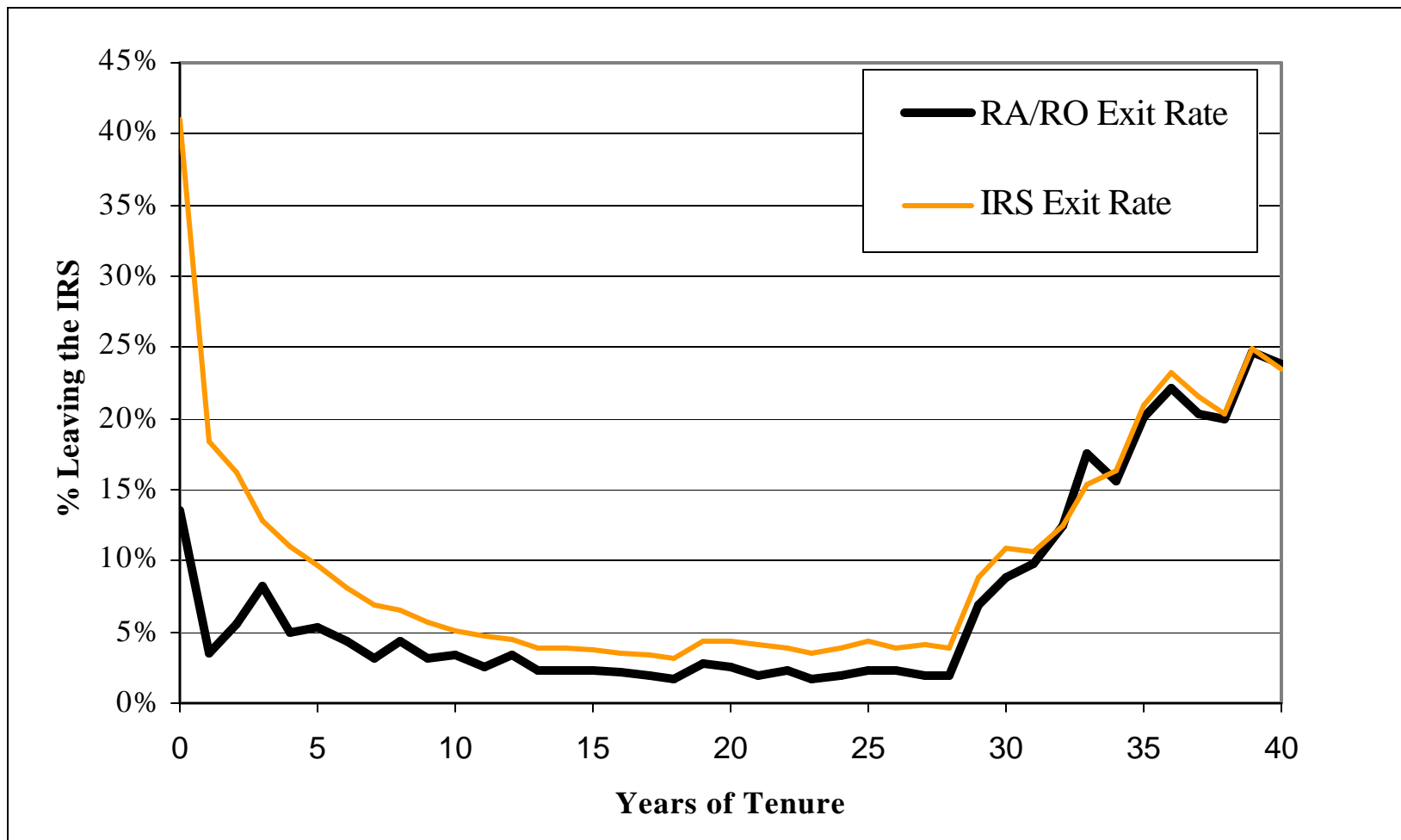


Figure 3 - RA/RO and IRS Employee Exit Rates by Years of Tenure, 1997 to 2002

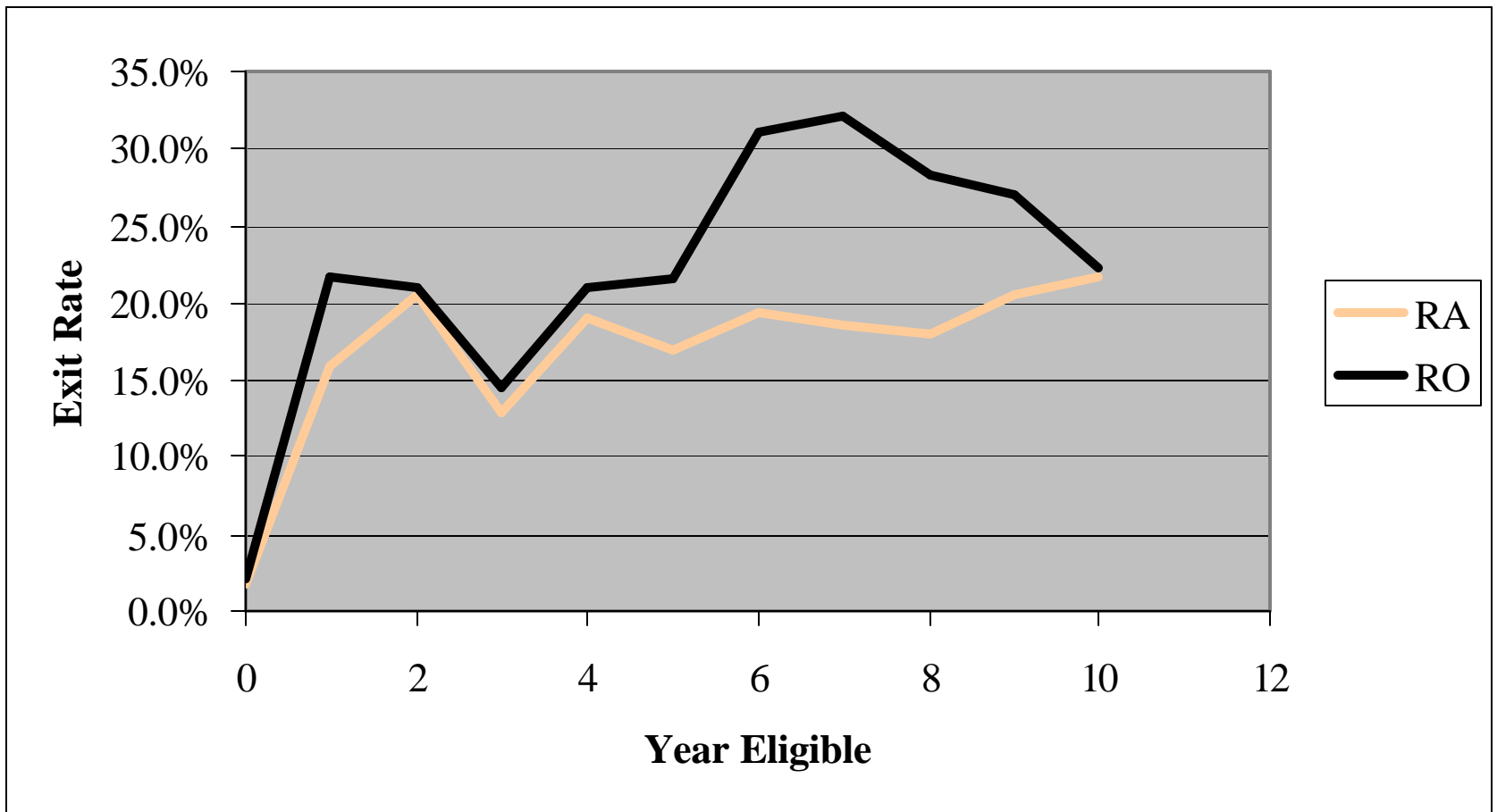


Figure 4 - Exits Rates by the Years Since Retirement Eligibility, 1998-2002

Model

- Discrete choice model quits (leaving the job series or the IRS) between time t and $t+1$ based on time t factors (tenure, age, etc.)
- Decision assumed to be based on net utility between remaining in the job vs. leaving
- Model provides a probability that an individual employee will leave within the next 12 months
- Model includes year dummies to control for the effects of the reorganization and external labor market changes
- Includes controls for FERS vs. CSRS employees

Model Parameter Estimates

- Age and tenure effects are consistent with previous research
- In general FERS does not appear to increase attrition rates – other exits costs
- FERS employees who have reached the top pay step or are eligible for early retirement may be more likely to leave
- Cash awards tend to reduce turnover
- RO new hires have a higher initial attrition rate – educational requirement may be less effective as a screening device to generate match capital

Hiring Scenarios

- Forecast attrition in two scenarios: No hiring and hiring to maintain the status quo
- Past new hires are “cloned” and artificially introduced into the workforce in the forecast years
- Age and tenure (including retirement eligibility) variables are updated in each forecast year – other variables are held constant

Table 2 - Attrition Estimates with No New Hires

	Revenue Agents		Revenue Officers	
Year	Count	Attrition Rate	Count	Attrition Rate
2003	12,222	5.21%	5,571	6.39%
2004	11,585	5.25%	5,215	6.53%
2005	10,977	5.40%	4,874	6.75%
2006	10,383	5.55%	4,546	7.00%
2007	9,808	5.70%	4,227	7.36%
2008	9,248	-	3,916	-

Table 3 - Attrition Estimates: Hiring to Maintain a Constant Staffing Level

	Revenue Agents		Revenue Officers	
	Target Level = 12,222		Target Level = 5,571	
Year	New Hires	Attrition Rate	New Hires	Attrition Rate
2003	637	5.21%	356	6.39%
2004	653	5.34%	370	6.65%
2005	649	5.31%	385	6.91%
2006	631	5.16%	379	6.80%
2007	613	5.01%	371	6.67%

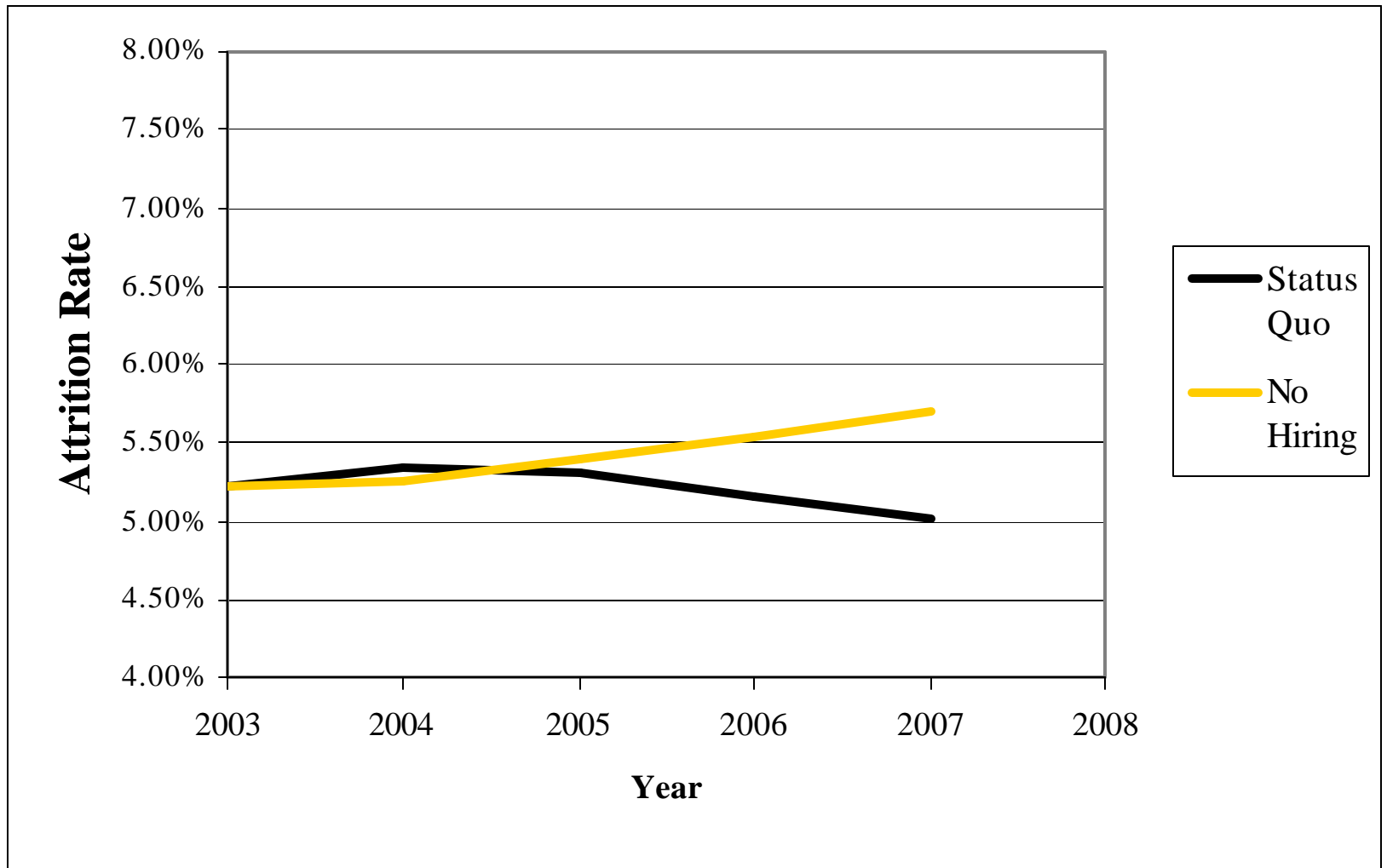


Figure 5 - Forecasted Revenue Agent (RA) Attrition Rates for the "No Hiring" and the "Status Quo" Scenarios

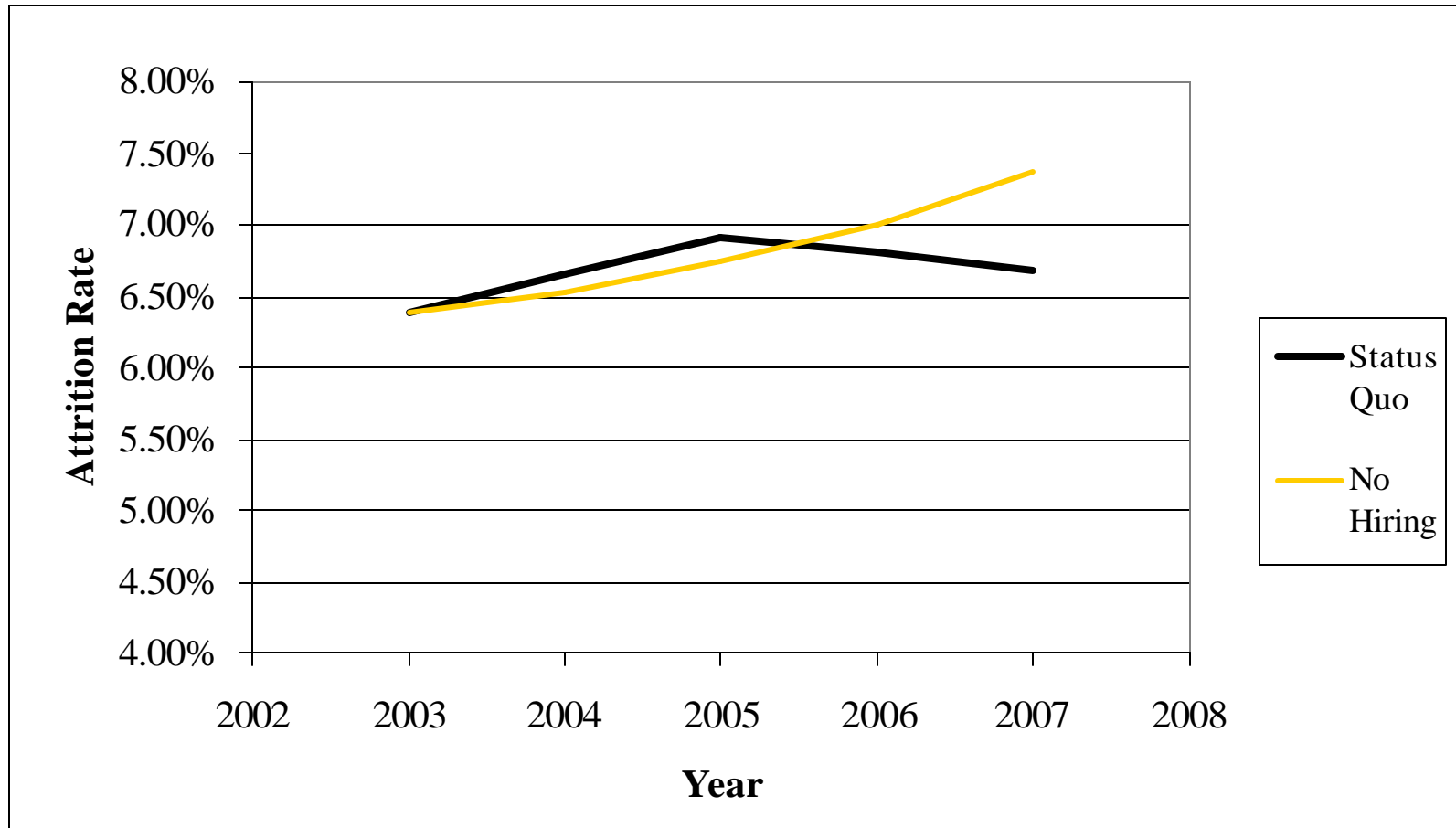


Figure 6 - Forecasted Revenue Officer (RO) Attrition Rates for the "No Hiring" and the "Status Quo" Scenarios

Conclusion

- Investment in hiring is critical if the IRS is to maintain the human capital in its compliance occupations
- May need to focus more effort on ROs due to higher initial attrition rates and larger declines in staffing levels in the recent past
- Reorganization impacts the compliance occupations: creates opportunities in the IRS internal labor market
- FERS may increase the mobility of ROs and RAs – but this effect is expected to be relatively small